

Message Text

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22

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /125 W
----- 049982

R 171558Z SEP 76

FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC
SECSTATE WASHDC 5609
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA

UNCLAS LONDON 14743

DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: BANK OF ENGLAND CALLS FOR SPECIAL DEPOSITS

1. THE BANK OF ENGLAND CALLED FOR AN EXTRA 1 PERCENT
(ROUGHLY 350 MILLION POUNDS) IN SPECIAL DEPOSITS ON SEP-
TEMBER 16. THIS WILL INCREASE THE REQUIRED RATIO OF SPEC-
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IAL DEPOSITS TO ELIGIBLE LIABILITIES FROM 3 TO 4 PERCENT.

THE INCREASE WILL BE EFFECTED THROUGH TWO EQUAL PAYMENTS
ON SEPTEMBER 28 AND OCTOBER 6, DATES CHOSEN TO MINIMIZE
IMPACT ON SHORT TERM MONEY MARKET AND INTEREST RATES.

2. COMMENT: THE INCREASE IN SPECIAL DEPOSITS IN HAND
WITH THE SEPTEMBER 10 INCREASE IN THE MINIMUM LENDING
RATE WILL ACT TO TIGHTEN CREDIT TOWARD YEAR'S END.
BANKERS, HOWEVER, DO NOT EXPECT THE CALL TO APPRECIABLY
RESTRICT THEIR LENDING. RATHER IT REMOVES A BUILD-UP
OF LIQUIDITY IN THE SYSTEM (RATIO BANK RESERVE ASSETS IN-
CREASED FROM 14.2 PERCENT IN JULY TO 15.1 PERCENT IN
AUGUST). THE CALL IS SEEN AS A PRECAUTIONARY WARNING
RATHER THAN A SERIOUS IMPEDIMENT TO LENDING. IT ALSO
SERVES AS AN INDICATION OF THE BANK OF ENGLAND'S DESIRE
TO MAINTAIN CONTROL OF FUTURE GROWTH OF MONEY SUPPLY.

ARMSTRONG

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Message Attributes

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Disposition Event:
Disposition History: n/a
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Margaret P. Grafeld
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